

# CPP ANNUAL USE OF CAPITAL SURVEY - 2011



NAME OF INSTITUTION

(Include Holding Company Where Applicable)

Mission Bank, subsidiary of Community Bancshares, Inc. (The CPP recipient)

Point of Contact:	Vearl L. Haynes, Jr., Sr.V.P./C.F.O.	RSSD: (For Bank Holding Companies)	3392443
UST Sequence Number:	1226	Docket Number: (For Thrift Holding Companies)	N/A
CPP/CDCI Funds Received:	3,872,000	FDIC Certificate Number: (For Depository Institutions)	57137
CPP/CDCI Funds Repaid to Date:		Credit Union Charter Number: (For Credit Unions)	N/A
Date Funded (first funding):	July 24, 2009	City:	Kingman
Date Repaid <sup>1</sup> :	N/A	State:	Arizona

<sup>1</sup>If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP) and Community Development Capital Initiative (CDCI). To answer that question, Treasury is seeking responses that describe generally how the CPP/CDCI investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP/CDCI investment was deployed or how many CPP/CDCI dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

**What specific ways did your institution utilize CPP/CDCI capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP/CDCI funds were outstanding).**

☒ **Increase lending or reduce lending less than otherwise would have occurred.**

Since receiving CPP funding Mission Bank has increased the bank's gross loan portfolio and the net loan portfolio. It is reasonable to infer that lending could have been reduced or growth curtailed absent the capital injection received from the CPP program.

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☒ **To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).**

Mission Bank's lending has remained in a similar mix to that prior to the receipt of CPP funding. Although small variations in concentration have occurred since funding, these have been the result of normal variances rather than a change in emphasis with respect to CPP supported lending.

☐ **Increase securities purchased (ABS, MBS, etc.).**

☐ **Make other investments.**

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☐ Increase reserves for non-performing assets.

☒ Reduce borrowings.

At the time of CPP Funding the Holding Company had already deployed a \$1,000,000 line of credit which had been injected to support capital growth. Following CPP funding, that line matured and was repaid. No stock was issued or additional lending obtained to replace those monies.

☐ Increase charge-offs.

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☐ Purchase another financial institution or purchase assets from another financial institution.

☒ Held as non-leveraged increase to total capital.

Mission Bank equity capital has been materially increased directly through CPP funds as bank growth continues to be anticipated that may grow assets and prudent lending activities through the use of this capital support.

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### What actions were you able to avoid because of the capital infusion of CPP/CDCI funds?

The greatest problem the organization faced prior to CPP funding was the imminent replacement of capital funding received at the bank from the holding company. The liquidity crisis resulting from turmoil in the capital markets removed our planned expansion through CDO/CDS funding and regulator restraints at bankers' banks and correspondent banks had effectively shut down the availability of holding company loans from traditional sources. The CPP provided an alternative to rapidly disappearing, high cost funding sources that may not have been obtainable for a small community bank in that environment. Barring CCP funding, management had begun formulating aggressive plans to shrink the bank's asset size and reduce staff to improve profitability and maintain the bank's capital position. This plan would have almost unavoidably resulted in a concomitant halt to lending and reductions in loan and deposit levels that would have been required to strengthen the bank's financial footings. Analysis of the bank's fixed cost structure indicates that the smaller asset size resulting from an asset reduction plan would have been less profitable than operating results that have occurred since CPP funding. The anticipated financial structure of the organization following asset reduction was also projected to have been less stable, (from a safety and soundness perspective,) and would have also caused difficulties for local businesses that have been strengthened by our financing. Although these statements are by their nature speculative and it is impossible to be certain that no alternative capital sources would have materialized to provide the capital support received from CPP funding, management believes that there is a high probability of likelihood that operating results would have suffered had CPP funding not been received.

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### What actions were you able to take that you may not have taken without the capital infusion of CPP/CDCI funds?

CPP funding has allowed this organization to maintain its growth in the nine months since CPP disbursement. During this period the bank's assets have grown by over 8%. This asset growth has allowed the bank to more fully deploy its existing fixed cost investments in staff and systems. This deployment has improved the bank's operating profitability such that, as capital markets continue to adapt and recover, the organization is better positioned to qualify for and deploy capital from future sources that may materialize. Since CPP funding the bank's loan portfolio has also grown by over 3.5%. The injection of CPP proceeds into the bank's capital has markedly improved loan operating measures for coverage and concentration analyses. While the organization's stringent loan underwriting has created a lower than average level of loan losses, CPP sourced capital has allowed aggressive loan loss provision to position the bank to fully address any loan losses that might occur in the future without compromising growth or lending activity. The bank's liquidity position has increased markedly and is such to now allow funding of appropriate lending opportunities that meet the bank's underwriting standards. This liquidity, a by-product of structural growth built upon CPP capital, has also permitted the bank to use this opportunity to begin restructuring deposit and funding concentrations. These changes are anticipated to reduce interest expenses and improve net interest margins while reducing net interest margin volatility. Finally, liquidity can now be deployed in conjunction with the higher capital levels resulting from CPP placement to allow the bank to begin the repurchase of some credits which were participated in the past due to capital constraints. All of these actions are anticipated to strengthen profitability in a manner that would not have been expected without some capital infusion.

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Please describe any other actions that you were able to undertake with the capital infusion of CPP/CDCI funds.

See above.